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Exclusive: Russia wants short-term gas deal with Ukraine before bypass routes complete

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6 MIN READ



MOSCOW/BRUSSELS (Reuters) - Russia wants to strike a short-term deal with Kiev on gas transit to Europe when the current 10-year agreement expires in order to buy time to complete pipelines that will bypass Ukraine, four sources familiar with Russian thinking said.

FILE PHOTO: The logo of the Nord Stream 2 gas pipeline project is seen on the pipe cap at the construction site of the Nord Stream 2 gas pipeline, near the town of Kingisepp, Leningrad region, Russia June 5, 2019. REUTERS/Anton Vaganov/File Photo

The current deal with Ukraine lapses at the end of this year.

Moscow's stance is far removed from what Kiev and its European allies want. They are seeking guarantees that Ukraine will remain a transit route for Russian gas to Europe, leaving little obvious room for a breakthrough.

The lack of progress in talks has spurred market jitters, with Europe stockpiling gas to guard against possible disruption of supplies in the peak of winter.

There are a number of obstacles to a deal, such as a political row between Kiev and Moscow, a pro-Russian insurgency in eastern Ukraine, and litigation between Russian gas supplier Gazprom and Ukraine energy company Naftogaz.

Besides, Moscow has said Ukraine must complete the formation of a new parliament and government before talks can take place.

Also in play are a wider standoff with the West and the threat of sanctions from Washington against a Russia-designed undersea pipeline to Germany.

Russia has said it wants to cut substantially its gas flows to Europe via West-leaning Ukraine by doubling the capacity of the existing Nord Stream trunk via the Baltic Sea and laying gas pipes to Turkey and onwards through the Black Sea.

"Ukraine is looking for a long-term, 10-year deal. It's not beneficial for us. A one-year deal would be OK so we would build up our strength and launch all those 'streams' (Nord Stream 2 and TurkStream)," one of the four sources said.

A European Union source and two other Russian sources familiar with Gazprom's thinking confirmed Moscow's stance. Gazprom declined to comment.

Russian Energy Minister Alexander Novak, asked on the short-term contract proposal on Friday, confirmed Moscow has been in touch with Kiev regarding such a deal.

"We have proposed to our (Ukrainian) colleagues to extend the current contract for a year on the existing conditions. There could be some adjustments, subject to commercial talks ... We have not get a reaction (from Kiev) yet," Novak told reporters.

The EU, which is mediating gas talks between the two sides, has invited both parties to a new round of discussions on Sept. 16, sources close to the matter said.

Russia, the EU and Ukraine have held several previous rounds of gas talks that failed to yield a deal acceptable for all.

TOUGH TALKS

The Gazprom-led Nord Stream 2 pipeline, with annual capacity of 55 billion cubic meters (bcm), is due to be ready by the year-end but may face delays over a permit pending from Denmark and changes to EU rules that could affect its business plan.

Nord Stream 2 is two-thirds complete. The first line of TurkStream, with capacity of 15.75 bcm and designed for Turkey's domestic market, is also due for launch by the end of the year.

The second line should go via Bulgaria, Serbia and Hungary, Russia's Novak said on Friday. For Ukraine, one of Europe's poorest countries, Russian gas transit means some \$3 billion in annual revenue, so for Kiev the stakes are high.

In 2006 and 2009, Russia temporarily halted its gas transit via Ukraine on the grounds Kiev was “siphoning” gas meant for Europe. Ukraine denied any wrongdoing. Since then, Gazprom has sought to bypass the transit country.

European Commission Vice President Maros Sefcovic told Reuters he had invited Kiev and Moscow to a new round of talks in September.

“I believe that currently, we have on the table a fair proposal that I presented in January. It covers main parameters of the future transit of gas from Russia via Ukraine to the EU,” he said. Europe gets a third of its gas needs from Russia.

In January, Sefcovic floated a proposal for the two countries to agree a new 10-year transit contract, with a guaranteed minimum yearly transit volume of 60 bcm and 30 bcm of additional flexibility.

Yuriy Vitrenko, an executive director at Naftogaz, told Reuters that Ukraine still counted on the proposal made by Sefcovic.

“If the Russian side does not agree with the Sefcovic proposal, we would like to hear why and be informed of a counterproposal,” Vitrenko said.

Ukraine wants to reform the way it operates its gas pipeline system - a process requiring time and investment.

The second source familiar with Russian thinking said an extension of the current contract for a short period would be the “optimal option” amid Kiev’s push to reform its gas system.

“It’s clear that they (Russians) want to phase out, dry out Ukraine transit,” the third source said. “They want a short contract, with a low commitment on volumes.”

Europe is stockpiling gas to avoid any disruption. According to Gas Infrastructure Europe, an industry body, gas storage on the continent was 80.5% full as of July 23 compared to 58.3% a year earlier.

“Whether or not agreement is reached by 31 December, there is no doubt that the large-scale transit of Russian gas via Ukraine to Europe is coming to an end,” the Oxford Institute for Energy Studies said in a paper published in May.

“It is very likely that by 2022 both Nord Stream 2 and (TurkStream) will be operating at full capacity.”

Reporting by Vladimir Soldatkin, Maria Grabar and Polina Ivanova in MOSCOW, Olesya Astakhova in ANTALYA, Alissa de Carbonnel in BRUSSELS and Pavel Polityuk in KIEV; Editing by Andrew Osborn, Dale Hudson and David Evans

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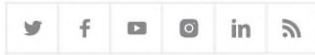
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